



COUNCILMEMBER CARL DeMAIO


FIFTH DISTRICT

CITY OF SAN DIEGO

MEMORANDUM

DATE: October 7, 2009

TO: Mayor Jerry Sanders
City Councilmembers

FROM: Councilmember Carl DeMaio 

RE: Financial Assumptions for Building a New City Hall

In anticipation of the City Council taking up the proposed new City Hall project on October 12, 2009, I respectfully draw your attention to the timely attached article. The article discusses the significant vacancy rates in commercial office space in San Diego.

The assumed lease rates being used in the financial modeling for this project have been one of the major concerns I continue to raise, as these overstated lease rates artificially increase the financial benefits of moving forward with this project. This article only reinforces those concerns.

CC: Andrea Tevlin, Independent Budget Analyst
Jeff Graham, CCDC
Jim Barwick, Director, Real Estates Assets

Attachment:

“Region’s Commercial Real Estate Vacancies Foster Empty Feeling.”
San Diego Union-Tribune. October 7, 2009

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THE SAN DIEGO UNION-TRIBUNE **PRINTTHIS****?Related Terms:** [Carlsbad](#), [Kearny Mesa](#), [Mission Valley](#), [Otay Mesa](#)

Region's commercial real estate vacancies foster empty feeling

By [Roger Showley](#)
Union-Tribune Staff Writer

2:00 a.m. October 7, 2009

San Diego's office market reached the 20 percent vacancy rate for the first time in 16 years, CB Richard Ellis said yesterday in its third-quarter report on the commercial real estate market.

The rate was even worse when factoring in the sublease space available, which raised the vacancy level to 25.6 percent.

To put the statistics in brick-and-mortar terms, 14.5 million square feet out of a 56.6-million-square-foot base equates to nearly all the office space in downtown and Mission Valley, the region's two biggest office markets.

Mark Reid, the brokerage's regional managing director, said that while the vacancy rate may have been higher in past recessions, the quantity of vacant space has never been so large. However, the empty offices offer opportunity for bargain-seeking tenants, he said.

"It's a great time to be a tenant if you're a steady, proven business with a good, solid financial statement," Reid said. "There are some terrific deals to buy buildings and lease space."

The prospects for improvement in the vacancy rate look bleak, the brokerage report said:

"The recovery period will likely begin at either the end of 2011 or early 2012 with office employment and net absorption levels returning to a positive trend."



The retail space in the Smart Corner building at 1122 Broadway in downtown San Diego, photographed in December 2008 after Starbucks Coffee departed, remains vacant. *Howard Lipin / Union-Tribune - The San Deigo Union-Tribune*

The biggest hurdles to an upturn are employment and financing, Reid said. "Those are the two big issues ahead of us."

With about 50,000 lost jobs locally in the past year and unemployment not expected to peak until next year, net office leasing will not improve in the short term.

"Anyway you slice it, 2010 is going to be a very difficult year," Reid said. "We're looking for some recovery, but it will not be overnight. And the question is what shape is the recovery and how fast."

Cushman & Wakefield's San Diego brokerage, which also released vacancy figures for office and industrial space yesterday, said the office vacancy in the county was 18.3 percent.

In the retail sector, CB Richard Ellis said vacancies — not including sublease space — rose from 5.5 percent in the second quarter to 6.2 percent. Regional shopping centers are not included.

Much of the vacancy has come from the closing of big-box retailers, but some spaces have been picked up by other big users seeking to expand their market share.

"It seems the best locations have been re-leased," Reid said, citing Best Buy's takeover of a Linens-n-Things store and Sprouts Farmers Market supplanting a former Circuit City location.

However, Reid said small businesses have had trouble taking advantage of the down market.

"Little mom-and-pop retailers that might have opened businesses three or four years ago just are not going to do it because they don't have money," he said.

The industrial vacancy rate was 15.7 percent, up from 12.1 percent in the second quarter. The sector includes corporate headquarters, warehouses and multitenant uses in industrial-type buildings.

For that reason, Reid said, demand remains high in central-county locations and low elsewhere. In the company survey, Otay Mesa had the highest vacancy of 27.1 percent. Downtown had the lowest, 5.9 percent.

With overall demand weak, there were no new industrial projects completed in the third quarter, none under construction and only 777,029 square feet added so far this year.

Eric Northbrook, executive director of Cushman & Wakefield's local office, said defense is the only industrial building user in a growth mode. His figures for research-and-development space showed a 15.4 percent vacancy rate and 11.7 percent for industrial.

CB Richard Ellis said only 40,000 square feet of new office space, located in Carlsbad, was completed in the third quarter. There was 135,427 square feet under construction in Kearny Mesa, Carlsbad and other north coastal cities.

Only 20,000 square feet of new retail space was completed and nothing was under construction.

Union-Tribune

Roger Showley: (619) 293-1286;

Find this article at:

<http://www3.signonsandiego.com/stories/2009/oct/07/regions-commercial-real-estate-vacancies-foster-em/?business&zIndex=178474>

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